

VZCZCXR08658
PP RUEHPA
DE RUEHDK #0558/01 0650827
ZNR UUUUU ZZH
P 060827Z MAR 06
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 4463
INFO RUCPDOC/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHNE/AMEMBASSY NEW DELHI 0040
RUEHYD/AMEMBASSY YAOUNDE 0205
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 02 DAKAR 000558

SIPDIS

SIPDIS

STATE FOR EB/IFD/ODF, AF/EPS AND AF/W
STATE PASS EXIM, OPIC AND TDA
USDOC FOR 4510/MAC/ANESA/OA/MICHELINI

E.O. 12958: N/A

TAGS: [FFIN](#) [EINV](#) [ETRD](#) [IN](#) [SG](#)

SUBJECT: UPDATE ON ICS BANKING CRISIS

REF: 05 DAKAR 03189 (NOTAL)

¶1. SUMMARY: Pressure is mounting on local banks to take provisions against approximately USD 150 million in overdue loans to Senegal's failing phosphate mining concern, Industries Chimiques du Senegal (ICS). So far, Citibank appears to be the only foreign bank actively moving to write off bad loans. Some bankers are warning of a WAEMU-wide banking crisis. The IMF, on the other hand, sees the crisis as having moderate local impact and being unlikely to endanger the stability of the West African CFA franc (CFAF). While all sides are agreed on the need for a fundamental restructuring of ICS, a standoff continues between the Senegalese Government, an Indian syndicate seeking to acquire the GOS's 48 percent share and Dakar's banking community on how the burden of recapitalizing the company will be divided. END SUMMARY.

BACKGROUND

¶2. ICS is in arrears on over 90 billion CFA francs (CFAF)(USD 180 million) in debt, both short and long-term. Much of ICS's debt is Euro-denominated although ICS's phosphate exports are dollar-denominated. Approximately 70 billion CFAF is owed to local banks, amounting to 103 percent of their net total worth. BCEAO regulations require banks to ultimately make provisions against bad loans from a single entity that surpass BCEAO-set ratios, forcing banks to recapitalize and otherwise make adjustments to their overall lending portfolio and assets. Foreign-held banks may need to write down these loans in external books as well as account for them locally.

¶3. This week, the Government took preemptive action against a formal declaration of bankruptcy that could jeopardize ICS's overseas accounts and assets. The Government sought and received a court order, freezing domestic creditor action against ICS for an indefinite period, giving the Government additional time to put together a financial restructuring package. The Government has also put up a 10 billion CFAF guarantee on short-term debt. Local banks are demanding that the GOS issue an additional letter of sovereign guarantee for all outstanding ICS debt, a move opposed by the World Bank and IMF. Both the IMF and World Bank are becoming increasingly critical in public about growing government willingness to provide budget support and even bail out failing enterprises, including ICS, Sonacos (a privatized peanut oil processor) and Senelec (Senegal's electrical power parastatal). However, given that a governmental guarantee letter would underpin restructuring of overdue

debt, delaying the commencement of repayment of principal for seven to ten years, the Bank and IMF appear amenable to a guarantee as part of a comprehensive restructuring plan.

¶4. The legal status of the court order is somewhat ambiguous; it appears to apply to banks within the OHADA West African region but may not apply to foreign banks. The order also has no impact on a series of foreign court ordered seizures of ICS's overseas assets, including New York bank accounts.

¶5. Contacts and media suggest that the Presidency is pursuing other buyers and potential investors, including Moroccan and Chinese interests. However, government officials have privately suggested they continue to favor the Indian offer to inject 50 billion CFAF, revitalizing the mine with the Government taking an increased role in running the rail link to the Port of Dakar. ICS's minority share holders, including a syndicate of Indian companies and public agencies, have been noticeably quiet about pursuing their offer to purchase the government's remaining ICS shares and assume control of the company. They appear to be running a quiet campaign to point out to the GOS that although Senegalese phosphoric acid accounts for 20 percent of Indian's fertilizer imports, other overseas sellers, including Algeria, Egypt, Jordan, Morocco and South Africa, are poised to take market share from Senegal.

¶6. In the meantime, ICS's travails continue. Senelec has threatened to cut off the power, and this week, Transrail, manager of the Dakar-Bamako railroad, warned it would prohibit ICS use of its line unless ICS makes good on USD

DAKAR 00000558 002 OF 002

three million in arrears. ICS has emerged as a serious threat to the continued viability of Citibank's local branch, which now has negative capital after taking a write off on USD twenty million in bad ICS loans.

COMMENT

¶7. The Embassy continues to urge the GOS to work with local banks toward a formula that will share the pain and permit restructuring of ICS's arrears, as well as capital reinvestment in the company, enabling ICS to at least maintain present levels of production. Reportedly, the Minister of Energy and Mines plans to issue a comprehensive restructuring proposal in May. With elections in 2007, much is at stake for the Wade Presidency since ICS accounts for 2,500 high-paying jobs and has been Senegal's leading exporter. END COMMENT.

JACKSON